CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 1, 2001

H.R. 10
Comprehensive Retirement Security and Pension Reform Act of 2001

As ordered reported by the House Committee on Education and the Workforce on April 26, 2001

SUMMARY

H.R. 10 would make numerous changes to the Internal Revenue Code (IRC) and the Employee Retirement Income Security Act of 1974 (ERISA) that would affect the taxation and operation of private pension plans.

CBO and the Joint Committee on Taxation (JCT) estimate that the bill would reduce federal revenues by $1.1 billion in 2002, by $16.4 billion over the 2002-2006 period, and by $51.7 billion over the 2002-2011 period. CBO estimates that the bill would increase direct spending by $2 million in 2002, by $49 million over the 2002-2006 period, and by $112 million over the 2002-2011 period. Since this bill would affect direct spending and revenues, pay-as-you-go procedures would apply. In addition, CBO estimates that implementing H.R. 10 would cost about $2 million over the 2002-2006 period, subject to appropriation of the necessary amounts.

JCT and CBO have determined that H.R. 10 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. The bill contains one new private-sector mandate. JCT has determined that the cost of this mandate would not exceed the threshold established by UMRA for private-sector mandates ($113 million in fiscal year 2001, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 10 is shown in the following table. The costs of this legislation would fall within budget functions 600 (income security) and 800 (general government).

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
CHANGES IN REVENUES						
Modification of IRA Contribution Limits	0	-368	-1,203	-2,059	-2,762	-3,311
Increased Limitation on Exclusion for Elective Deferrals	0	-100	-328	-500	-636	-708
Additional Increased Limitation on Exclusion for Elective Deferrals for Individuals Age 50 and Above	0	-241	-320	-239	-155	-96
Other Estimated Revenues	0	-385	-700	-663	-743	-919
Total Revenues	0	-1,094	-2,551	-3,461	-4,296	-5,034
CHANGES IN DIRECT SPENDING						
IRS User Fees	0	-1	-1	*	0	0
Reduced PBGC Flat-Rate Premiums	0	0	*	*	*	*
Reduced PBGC Variable Premiums	0	0	9	9	9	9
Missing Participants in Terminated Plans	0	0	*	*	*	*
Payment of Interest on PBGC Premium Overpayment	0	3	3	3	3	3
Benefits Paid to Substantial Owners	0	0	*	*	*	*
Total Direct Spending	0	2	11	12	12	12
TOTAL CHANGES SUBJECT TO PAY-AS-YOU-GO PROCEDURES						
Net Decrease in Budget Surplus	0	-1,096	-2,562	-3,473	-4,308	-5,046
SPENDING SUBJECT TO APPROPRIATION						
Studies by the Department of Labor						
Estimated Authorization Level	0	2	0	0	0	0
Estimated Outlays	0	*	*	*	*	1

SOURCES: CBO and Joint Committee on Taxation.

NOTES: Components may not sum to totals because of rounding.
Budget authority equals outlays for direct spending proposals.
* = Less than $500,000.

BASIS OF ESTIMATE

Revenues

Federal Tax Revenues. JCT estimates that H.R. 10 would reduce federal tax revenues by $1.1 billion in 2002, by $16.4 billion over the 2002-2006 period, and by $51.7 billion over the 2002-2011 period. The bill would increase the maximum contribution limit for Individual Retirement Accounts (IRAs) to $3,000 in 2002, $4,000 in 2003, and $5,000 in 2004. After 2004, the maximum contribution rate would be indexed for inflation. The bill also would increase the maximum IRA contribution to $5,000 for individuals aged 50 or older in 2002 and 2003. In addition, the bill would make numerous changes to pension laws. For 2002, it would increase to $11,000 the dollar limit on certain contributions made to qualified plans ("elective deferrals") under section 401(k) plans, section 403(b) annuities, and simplified employee pension plans (SEPs). That limitation would increase further, in $1,000 annual increments, until it reaches $15,000 in 2005. After 2005, the dollar limit would be indexed for inflation. The bill also would increase the otherwise applicable dollar limit on elective deferrals by $5,000 for individuals aged 50 or older in 2002 through 2006. After 2006, the dollar limit would be indexed for inflation.

IRS User Fees. H.R. 10 would eliminate the fee that the IRS charges small businesses for providing ruling, opinion, and determination letters regarding the firms' pension plans if certain conditions are met. This provision would take effect after December 31, 2001. Based on the amount of fees collected in recent years and on information from the IRS, CBO estimates that eliminating the fee would decrease governmental receipts by a total of $17 million over fiscal years 2002 and 2003. Under current law, the IRS's authority to charge such fees will expire at the end of fiscal year 2003, so the provision would have no impact on receipts beyond that year.

Department of Labor Civil Penalties. Under current law, the Department of Labor (DoL) is responsible for administering ERISA's reporting, disclosure, and fiduciary conduct requirements for private pension plans. In cases of fiduciary misconduct, DoL is required to assess a civil penalty equal to 20 percent of any amount that is restored to a pension plan as part of a settlement or court judgment. These penalties, which totaled $3 million in 1998, are recorded as miscellaneous receipts.

The bill would allow DoL to assess these civil penalties at its discretion and to assess penalties that could be less than 20 percent of the recovered amount. With this more flexible authority, DoL has indicated that it would no longer assess penalties in cases where companies comply voluntarily with the department's enforcement efforts. According to

DoL, these cases comprise about a third of the total. The full 20-percent penalty would still be assessed in the remaining cases, which are typically resolved through litigation. CBO estimates that this provision would reduce penalties collected by about a third, and that the drop in penalties would total $5 million over the 2002-2006 period.

Direct Spending

National Summit on Retirement Income Security. The bill would extend the authorization for the National Summit on Retirement Income Security to include a meeting in 2009. CBO estimates that the Department of Labor would receive at least $500,000 in private donations, which would be spent to defray part of the costs of the conference. Therefore, this provision would increase revenues and direct spending by the same amounts and would have no net impact on the budget surplus.

IRS User Fees. The Internal Revenue Service (IRS) has the authority to retain and spend without further appropriation action a small portion of the fees it collects from taxpayers for certain rulings and determinations by the Office of the Chief Counsel and by the Office for Employee Plans and Exempt Organizations. Because H.R. 10 would eliminate the fee paid by small businesses for rulings and determinations, the bill would also reduce the amounts available for the IRS to spend. These fees are recorded in the budget as revenues, and are scheduled to expire in 2003. CBO estimates that eliminating the fee would decrease direct spending by a total of $2 million over the 2002-2004 period.

Reduced Flat-Rate Premiums Paid to the PBGC. Under current law, defined benefit pension plans operated by a single employer pay two types of annual premiums to the Pension Benefit Guaranty Corporation (PBGC). All covered plans are subject to a flat-rate premium of $19 per participant. In addition, underfunded plans must also pay a variable premium that depends on the amount by which the plan's liabilities exceed its assets.

The bill would reduce the flat-rate premium from $19 to $5 per participant for plans established by employers with 100 or fewer employees during the first five years of the plan's operation. According to information obtained from the PBGC, approximately 3,000 plans would qualify for this reduction. Those plans cover an average of about 10 participants each. CBO estimates that the change would reduce PBGC's premium income, which is classified as an offsetting collection, by about $400,000 annually beginning in 2003 and by about $1.7 million over the 2003-2006 period.

Reduced Variable Premiums Paid to the PBGC. H.R. 10 would make two changes affecting the variable-rate premium paid by underfunded plans. First, for all new plans that are underfunded, the bill would phase in the variable-rate premium. In the first year, plans would pay nothing. In the succeeding four years, they would pay 20 percent, 40 percent, 60 percent, and 80 percent, respectively, of the full amount. In the sixth and later years, they would pay the full variable-rate premium determined by their funding status. On the basis of information about premiums paid to the PBGC in 1998 and 1999, CBO estimates that this change would affect the premiums of approximately 400 plans each year. It would reduce PBGC's total premium receipts by about $28 million over the 2003-2006 period.

The bill would also reduce the variable-rate premium paid by all underfunded plans (not just new plans) established by employers with 25 or fewer employees. Under the bill, the variable-rate premium per participant paid by those plans would not exceed $5 multiplied by the number of participants in the plan. CBO estimates that approximately 8,300 plans would have their premium payments to PBGC reduced by this provision beginning in 2003. As a result, premium receipts would decline by $1.6 million in 2003 and by $7 million over the 2003-2006 period.

Missing Participants in Terminated Pension Plans. The legislation would expand the PBGC's missing participant program. The Retirement Protection Act of 1994 established a program to locate missing participants when defined benefit plans are terminated. The bill would expand the program to include terminating multiemployer plans, defined benefit plans not covered by the PBGC, and defined contribution plans.

The budgetary impact of this provision would be less than $500,000 annually. The PBGC does not expect a high volume of missing participants as a result of this proposal, and the administrative costs of expanding the program would not be significant. The net budgetary effect of increased benefit payments would also be small. Amounts paid by a pension plan to the PBGC for missing participants are held in the PBGC's trust fund, which is not part of the federal budget. Amounts paid by the PBGC to participants at the time they are located are funded in the same manner as benefit payments to participants in plans for which PBGC is the trustee—partially by the trust fund and partially by on-budget revolving funds.

Authorization for PBGC to Pay Interest on Premium Overpayment Refunds. The legislation would authorize the PBGC to pay interest to plan sponsors on premium overpayments. Interest paid on overpayments would be calculated at the same rate as interest charged on premium underpayments. On average, PBGC receives $19 million per year in premium overpayments, charges an interest rate of 8 percent for underpayments, and allows for a two-year lag between the receipt of payments and the issuance of refunds. The agency would pay the same rate for premium overpayments as it charges for underpayments. Based on this information, CBO estimates that direct spending would increase by $3 million annually.

Substantial Owner Benefits in Terminated Plans. H.R. 10 would simplify the rules by which the PBGC pays benefits to substantial owners (those with an ownership interest of at least 10 percent) of terminated pension plans. Only about one-third of the plans taken over by the PBGC involve substantial owners, and the change in benefits paid to owner-employees under this provision would be less than $500,000 annually.

Spending Subject to Appropriation

H.R. 10 would extend the authorization for the National Summit on Retirement Income Security to 2009 and would require the Secretary of Labor to conduct two studies—one on models for pension plan design and another on the impact of H.R. 10 on pension coverage. CBO estimates that these provisions would cost $2 million over the 2002-2006 period, subject to appropriation of the necessary funds.

National Summit on Retirement Income Security. H.R. 10 would amend ERISA to require the President to convene an additional conference on national savings in 2009. Under current law, the President is required to convene a National Summit on Retirement Income Security in 2001 and 2005. The appropriation of such sums as may be necessary is authorized for that purpose. The Secretary of Labor is also authorized to accept private donations to defray the costs of the conference. Based upon the experience of the 1998 National Summit, CBO estimates that the 2009 National Summit would cost less than $1 million and that more than one-half of the expenses would be offset by private donations. (See the discussion under direct spending for more details.)

Model Small Employer Group Plans. H.R. 10 would direct the Secretary of Labor to undertake a study to determine the most appropriate forms of private pension plans that are easy to maintain and provide portable benefits. The study also should indicate alternative arrangements for providing benefits that might be used by employee or employer associations as well as those that could be independent of employer sponsorship. In addition, the Secretary would study methods and strategies for making coverage more widespread. Finally, the Secretary would be required to consider the adequacy and availability of existing plans. Based on discussions with DoL staff, CBO estimates that the 18-month study would cost less than $500,000.

Report on Effects of Legislation. The bill would require the Secretary of Labor to report on the impact of H.R. 10 on various aspects of pension coverage to the Committee on Education and the Workforce of the House of Representatives and the Committee on Health, Education, Labor, and Pensions of the Senate. The study would assess the impact of the bill on pension coverage for low- and middle-income workers, the levels of pension benefits, the quality of pension plan coverage, workers' access to and participation in pension plans, and retirement security. Based on discussions with DoL staff, CBO estimates that the study would cost about $1 million over the 2002-2006 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in receipts	0	-1,094	-2,551	-3,461	-4,296	-5,034	-5,664	-6,287	-7,005	-7,799	-8,496
Changes in outlays	0	2	11	12	12	12	12	12	13	13	13

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT has determined that H.R. 10 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined the provision that would prohibit allocations of stock in an Employee Stock Ownership Plan of a subchapter S corporation would be a new private sector mandate. JCT has estimated that the cost of this mandate would not exceed the threshold established by UMRA for private-sector mandates ($113 million in fiscal year 2001, adjusted annually for inflation).

PREVIOUS CBO ESTIMATE

On May 1, 2001, CBO transmitted a cost estimate of H.R. 10 as ordered reported by the Committee on Ways and Means. The pay-as-you-go estimates for the two versions of the bill are identical. However, the version of the bill approved by the Committee on Education and the Workforce contains additional discretionary authorizations.

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